

BLOCK-CHAIN TECHNOLOGY – AN AID IN THE PREVENTION OF FINANCIAL CRIMES WITH SPECIAL REFERENCE TO ANTI-MONEYLAUNDERING (AML) & KNOW YOUR CUSTOMER (KYC)

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ABSTRACT

The block chain technologies are receiving increased attention in the financial service Industry for a number of reasons. This article outlines as to how this technology could help prevent occurrence of national & cross border financial crime & its wide application. This technology is likely to deliver immense value when deployed by the Industry in their business processes to combat financial crimes.

KEYWORDS: Block-Chain, Financial Service, Network, AML & KYC

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INTRODUCTION

The block Chain is a decentralized ledger technology connected to a network of computers and transactions recorded anonymously. The financial transactions executed is maintained on the network of servers called the “nodes” across geographically dispersed computers. The ledger contains data and record, which are grouped together as blocks. A block is added to the previous block only when it validates the following block to be added to the chain. A transaction can be part of the block only if all the nodes confirm the transaction and there is a complex algorithm in the background to perform the validation. The block chain network may be public, open called “permission less”, or it may be private called “permissioned”. The entities creating the block chain work through a process called consensus and all parties must agree to the rules that govern how entries are recorded and modified. All participants designate an authorized person to operate the network.

CONTENTS

The block chain’s technology has the capability to store client’s data at a central location. This would enable the financial service sector to explore the use of this technology for meeting the Know Your Customer (KYC), Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) & Politically Exposed Person (PEP) requirements. Financial service companies operate in multiple geographies and therefore it will be possible to access clients or customer data from a different location. The fragmentation and duplicate due diligence of recording customer data can also be avoided. Fraudulent transactions can also be prevented as the network is spread across locations, which will make it difficult for fraudsters’ to conduct fraudulent activity. The block chain networks are permissioned network and no outsiders can access the network and corrupt the records. This

technology is great for fraud prevention because it will restrict participants and they can join only on invitation and after validation of their authority and capacity. With the (5AMLD) fifth European AML directive, being implemented from June 2018 onwards & tough US FINCEN & RBI regulations, call for stricter Customer due diligence measures, this technology is also likely to help Government & National agencies in overall AML/KYC enforcement & oversight.

The block chain data's are impossible to erase or amend once it is authorized. All parties to the transaction must agree and validate through a process called consensus and post that the transaction would be assigned a time stamp. Therefore, the origin of the transaction can be traced, any approved changes will be visible and the original transaction can still be accessible. Thus, in short, the history of the entire transaction will be available on the network and it will add immense value to the financial supply chain. The block chain has a system of identifying parties in the network, which will detect persons who has evaded sanctions or enforcement actions.

The block chain works on distributed ledger technology and it can provide for a decentralized monitoring effort of all financial transactions. Potential suspicious transactions can be enabled to run through the entire chain and make it available to each node on the network so that it is visible to the participants. Alerts can be issued to the concerned participant and the transaction can be immediately flagged for further investigation. The Block chain network is up-dated in real-time with the record of such alert. This technology will also allow regulators, risk managers, auditors and all stakeholders to effectively seek a record of complex and suspicious transactions from the network and ensure prompt corrective action.

The block chain has another important operational capability. The network architecture is built to find the shortest route for settlement of a financial transaction. The more the channels of transactions the more would be the chances of money laundering and therefore Block chain eliminates this by routing transactions in the shortest possible ways thereby preventing cross border financial crimes.

The block chain data's are centrally stored on the Server, facilitating information sharing among all the financial institutions. The availability of centralized data enables prompt action by Government authorities in imposing sanctions, quicker enforcement thus preventing financial crimes.

CONCLUSIONS

Financial Institutions & regulators around the world are increasingly focusing on exploring new techniques to fight crimes as traditional methods lack transparency & efficiency. The block chain offers a more open, secure & efficient solution and potentially be an integral part of operations and truly going to be the most disruptive technology. Some risk issues need to be taken into account before it is implemented and deployed specially the banking & financial service business before they start to realize the full benefit.

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